57th Annual Report 1968

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

CALGARY'S CONSTRUCTION BOOM

Aerial view of Calgary is shown on the cover of this report. The Crowchild expressway sweeps into the heart of the city in this view looking east. The financial and administrative capital of Western Canada's oil and gas industry, Calgary today has a population of 369,000, compared with 206,000 of 1958, or the 104,000 of 20 years ago.

CONTENTS

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

REGISTERED OFFICE: 140 SIXTH AVENUE S.W., CALGARY, ALBERTA, CANADA

Board of Directors

H. R. Milner, Q.C., Edmonton, Alberta, Honorary Chairman of the Board, Canadian Western Natural Gas Company Limited

A. C. Anderson, Lethbridge, Alberta, Owner, Medical Dental Pharmacy (Lethbridge) Ltd.

D. E. Batchelor, Millarville, Alberta, President, Burns Foundation Limited

G. L. Crawford, Q.C., Calgary, Alberta, Barrister and Solicitor

K. L. MacFadyen, Calgary, Alberta, Vice-President — Comptroller, Canadian Western Natural Gas Company Limited

F. C. Manning, Calgary, Alberta, President, Manning Egleston Lumber Company Limited

J. E. Maybin, Calgary, Alberta, President, Canadian Western Natural Gas Company Limited

P. D. Mellon, Calgary, Alberta, Consultant

R. S. Munn, Calgary, Alberta, Corporate Director

J. E. O'Connor, Calgary, Alberta, Manager, Calgary Associate Clinic

J. M. Seabrook, Salem, New Jersey, Chairman and President, International Utilities Corporation

D. B. Smith, Calgary, Alberta, Vice-President and General Manager, Canadian Western Natural Gas Company Limited

M. E. Stewart, Philadelphia, Pa., President, General Waterworks Corporation

D. K. Yorath, Edmonton, Alberta, Chairman of the Company, Canadian Western Natural Gas Company Limited

Officers

D. K. Yorath, Chairman of the Company

M. E. Stewart, Vice-Chairman of the Company

J. E. Maybin, President

K. L. MacFadyen, Vice-President — Comptroller

D. B. Smith, Vice-President and General Manager

B. W. Snyder, Vice-President Engineering and Rate Administration

R. N. Dalby, Vice-President, Marketing

J. H. Pletcher, Vice-President, Gas Supply

A. J. Smith, Secretary

J. H. Miller, Treasurer

D. E. Pearce, Assistant Secretary

Miss E. Zutz, Assistant Secretary

HIGHLIGHTS IN REVIEW

	1968	1967	1966	1965	1964	1958
Customers at Year End	**122,805**	117,857	114,060	110,723	107,214	79,595
Natural Gas Sales . . (thousands of cubic feet)	**67,205,075**	62,953,637	61,827,517	58,012,772	51,771,155	36,920,958
Revenue	**$23,432,830**	$22,001,346	$21,728,474	$20,876,206	$18,870,057	$10,664,663
Net Income	**$ 2,787,323**	$ 2,667,431	$ 2,808,535	$ 2,935,139	$ 2,609,129	$ 1,183,003
Earnings Per Ordinary Share . . .	**$ 1.32**	$ 1.25	$ 1.33	$ 1.40	$ 1.22	$ .99
Gross Additions to Plant — Annual . .	**$ 4,444,029**	$ 5,171,412	$ 5,676,785	$ 2,641,479	$ 2,303,697	$10,847,792
Gross Plant	**$76,121,872**	$72,432,036	$67,947,926	$63,035,270	$61,021,575	$44,831,295
Miles of Pipeline . .	**3,038**	2,653	2,199	2,113	2,068	1,606
Maximum Daily Demand . . . . . . (thousands of cubic feet)	**385,190**	326,527	323,861	298,685	328,266	212,814
Communities Served .	**88**	88	85	83	82	49
Population Served . .	**483,000**	464,000	441,000	430,000	409,000	301,000

57th ANNUAL REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

There are two special and very encouraging features in the 1968 operations. A review of the year compared to recent years reveals that a much better than normal basic growth occurred during 1968. The other feature to be emphasized is the very promising economic outlook for the area served by the company.

The year's $23,433,000 revenue represents a $1.4 million increase over the previous year, and this is the best increase experienced in several years. Since the comparison between 1967 and 1968 is not influenced to any significant extent by variations in weather, the increase can be considered as a good measure of the real growth in market demand. Customer statistics give an additional measure of accelerated growth. The addition of 4,948 customers during the year, in spite of the construction industry's current problems of raising money, is the biggest increase in the last six years, and is 30% greater than in 1967.

The remarkable upsurge in investment in Calgary, the major population centre served by the company, is the best confirmation of the promising outlook for the future of the area. The Year in Review section of the annual report features this. The 34% increase in building permits in 1968 compared to 1967, which in itself was a record breaking year, demonstrates the increased attraction the area has for investors who are looking at the future.

Operating expenses, including depreciation and taxes, for the year increased by $1,226,000 over the previous year, to a total of $19,688,000. The largest single element of increased cost, $681,000, resulted from the necessity to buy greater volumes of gas at higher unit prices.

Interest on long-term debt increased by $201,000. This results from 1968 being the first full year of interest charges for the $7 million, June, 1967, debt issue. No new long-term debt was issued in 1968.

Net income after interest charges, $2,787,000, shows an increase of $120,000 over the previous year. After payment of preferred dividends, this represents earnings per common share of $1.32. This compares to $1.25 in the previous year.

On March 26, 1968, the Board appointed J. E. Maybin, president; D. B. Smith, vice-president and general manager; B. W. Snyder, vice-president – engineering and rate administration; R. N. Dalby, vice-president – marketing; and J. H. Pletcher, vice-president – gas supply. Mr. Smith also became a director of the company at that time. M. E. Stewart, the former president of the company, who has assumed new duties in Philadelphia as president of General Waterworks Corporation, was appointed vice-chairman and continues as a director of this company.

During the year the company received with regret the resignation of Howard Butcher III as a director. His contribution to the affairs of the company in his many years of service on the Board have been sincerely appreciated.

The directors wish to express their appreciation to a loyal, dedicated, and competent staff and management, who together have enabled the company to progress with efficiency and economy.

By Order of the Board of Directors,

D. K. Yorath, Chairman

J. E. Maybin, President

February 19, 1969


No.12

THE YEAR IN REVIEW

GAS SALES

Natural gas sales increased by 6.8% in 1968 to 67.2 billion cubic feet. Temperature has a significant effect on sales to residential and commercial customers who use natural gas primarily for space heating. The average temperature during 1968 was 38.6 degrees, close to the long term annual average temperature of 38.9 degrees. The average temperature during 1967 was also close to the long term average. The natural gas sales increase of 6.8%, therefore, can be considered almost entirely due to market growth in 1968.

The following table shows sales by class of service:

	Billion Cubic Feet	Percent of Total
Residential	23.5	35
Commercial	18.6	28
Industrial	25.1	37
	67.2	100%

During the year 4,948 new customers were added compared with 3,797 in 1967. This was the largest annual increase since 1960. The company's rural service program contributed to the customer increase by providing service to 775 new rural customers.

At year end a total of 122,805 customers were being served by the company. Service at present is being provided to the cities of Calgary and Lethbridge and 86 other communities in southern Alberta.

A new maximum day send-out record was established on Dec. 28 at the depth of one of the most severe cold periods experienced in many years. A total of 385 million cubic feet was sent out to customers that day, when the average temperature was 28 degrees below zero. The previous record, 342 million cubic feet, was established on Jan. 10, 1968.

MARKET POTENTIAL

An upsurge in building activity broke all records in Calgary in 1968 and made the city the envy of all Canadian cities, regardless of size.

In the city of Calgary alone construction permits totalling $183 million were issued in 1968. This is the largest total within the corporate limits of any city in Western Canada.

The Calgary total was $46 million higher than for 1967. The major types of construction for which permits were issued were: 3,220 new residences, $47.6 million; 133 apartments, $43 million; 29 offices, $32 million; government buildings, $11 million and new schools, $6.5 million.

Population of the city grew at a slower rate than in 1967 when 19,050 people were added to Calgary totals. However, the growth rate of 4 per cent was still substantial. The 1968 increase was 14,169, bringing the total at year-end to 369,025. This is a 25 per cent increase since April, 1964.

Calgary has long been established as the administrative and financial centre of Canada's oil and gas industry. The administration of over 90% of the exploration, production and development of the industry is handled from Calgary. This includes all of the exploration of the Arctic islands, Hudson's Bay, off the Pacific Coast and most of the work off the eastern seaboard.

In 1969 the Canadian oil and gas industry is expected to spend about $1.3 billion in exploration, production and development.

No city in the world has a larger dollar volume of construction arising from one industry than has Calgary from the oil and gas industry. One estimate is that $100 million of new construction in the city is directly related to demands created for new office, housing and related services by the oil and gas industry and its associated firms and people.

A glance at the telephone directory gives a further indication of the size of the industry. Listed are 359 oil companies and 97 oil consulting firms.

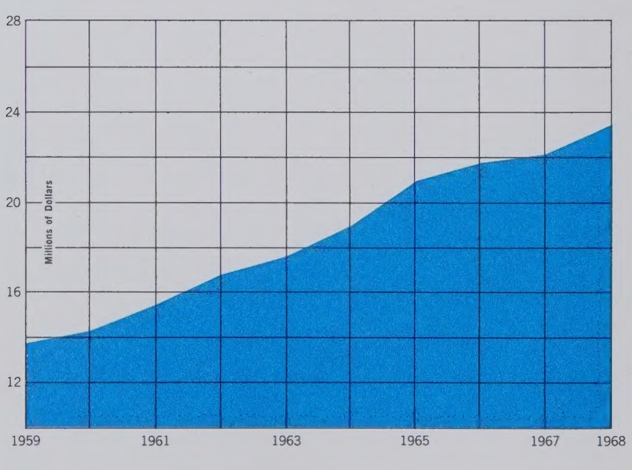
Roads, apartments and town houses . . . all are caught by the camera here as work in one Calgary subdivision typifies the continued high level of construction. In 1968 permits taken out for residential and apartment construction will add 8,568 more dwelling units to the city's housing total.

An interesting aspect of this development is the growth of computer services in Calgary. According to a trade magazine Calgary "has the greatest concentration of computer power per capita in the world." It estimates that 90 per cent of the petroleum industry's computer investment is in Calgary. There are seven data centres, and a dozen computer facilities owned by oil companies in the city, with an investment total of about $24 million.

Since the Second World War Alberta has become one of the world's great oil and gas development areas. Alberta has about 80% of Canada's natural gas reserves, and 85% of Canada's conventional oil reserves. This does not include the tremendous reserves of the Athabasca oil sands. Alberta production of crude oil in 1967 was 230 million barrels, and of natural gas 1,242 billion cubic feet. Today Alberta is producing about 800,000 barrels per day of conventional oil, and according to some estimates this could reach 2.8 million barrels a day by 1980.

The Athabasca oil sands of northern Alberta are estimated to have reserves of up to 400 billion barrels, equal to the total world reserves of conventional oil of 400 billion barrels. The Athabasca oil sands is a centre of major interest, with one extraction plant now operating. Additional plants and development of the oil sands may bring a further investment in excess of $1 billion in the next decade.

REVENUE



Production of elemental sulphur has been accelerated with the increase in natural gas volumes. Production in 1968 was about three million long tons, a 39.5% increase over 1967, with a further increase of nearly 50% forecast for 1969.

In addition to oil and gas, other Alberta mineral resources are being rapidly developed, particularly coal. Japanese interests have contracted for huge volumes of Alberta coal. The total value of these Western Canadian contracts was recently estimated at $1.5 billion.

Much of this coal is in the Crowsnest Pass region of Alberta and adjoining British Columbia. Your company provides natural gas to most of this region in Alberta. A 10-year, $50 million, contract has been announced by Canmore Mines Limited at Canmore, another community served by the company. Other large volume contracts are in central, and northwestern Alberta. Most of these are for 20-year periods.

Timber resources of the province are also developing rapidly and plans for new pulp mills, or additions to present ones, have already been announced for northwestern Alberta.

As Alberta develops so does Calgary, a city which impresses even the most casual visitor, so evident are the signs of growth and activity.

This is the way the Boston consulting firm of Simat, Helliesen and Eichner, Inc., described the city in a report on Calgary's air service requirements: "Calgary is the administrative capital of the petroleum industry in Canada . . . Because of the petroleum industry, and related activities in finance and trade, Calgary's pattern of economic interest is actually global in scope.

"Growth is another remarkable feature of the Calgary economy. Its base, again, is the petroleum industry, wherein expanding reserves and ever-increasing demands act as a catalyst in the development of the Calgary area. Building permits issued in Calgary during the 10-year period 1958-1967 covered almost a billion dollars' worth of new construction – $995,103,000 to be exact."

One of the largest of the building projects to which they refer is the Palliser Square development in the heart of downtown Calgary. The project is estimated to cost $35 million when all phases are completed in 1971.

Heart of Palliser Square is the 626-foot Husky Tower. Opened in July, 1968, it cost $3.5 million.

An outstanding view of the city is offered from its skyview restaurant and observation rooms. It uses natural gas for heating, air conditioning and cooking.

Now under construction in Palliser Square are a 20-story apartment tower with 202 suites, a parking structure for 2,000 cars and a gas-fired central heating plant. Also planned for the complex are a 35-story office building and a transportation building for rail and air, including a major reservation centre. Shops, restaurants and other facilities are included in the huge project whose area will measure 1,500,000 square feet when completed.

Educational facilities are a critical factor in an economy such as that enjoyed by Alberta and Calgary. Such institutions account for about 55% of the current public works capital budget in Alberta.

The major educational institution in Southern Alberta is the University of Calgary. Opened only in 1960 it now has a campus worth $70 million. Completed in 1968, for example, were MacEwan Hall, the student centre, and a 14-story, $5 million, education building.

Student enrollment today is 6,800. By 1972, when the student population is expected to increase nearly two-fold to more than 13,000, the university expects to complete additional buildings and facilities worth $43 million.

Newest centre of higher learning is the University of Lethbridge, which to date has had to use many temporary buildings. More than 1,000 students are now at the university. A permanent location has now been selected. The initial campus buildings are expected to cost in the neighborhood of $12 million.

Industrial expansion continues with this growth, adding as it grows additional sales of natural gas. The Firestone Tire and Rubber Company is building a $4 million expansion to its plant, increasing capacity by 60%. One of the largest plants built in Calgary in recent years is a multi-million-dollar bakery which will supply bread for Canada Safeway stores in Alberta, Eastern B.C. and Saskatchewan.

Capital investment in Calgary and Edmonton in 1968 was second only to Toronto, Hon. A. R. Patrick, Minister of Industry and Development, reported to the Alberta Legislature. Mr. Patrick said more than 150 new industries had located in the province in 1968, bringing an investment of $300 million, and providing 1,600 new jobs.

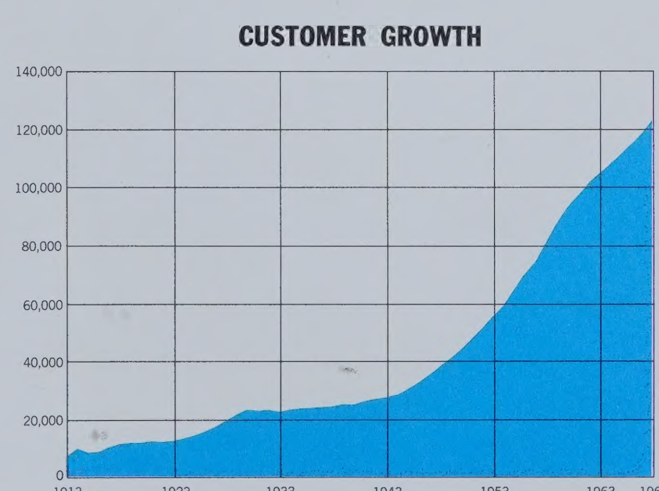
Calgary is a major centre of distribution, and some 65 projects, either new plants or expansions, are now under way. A plastic pipe plant is under construction as are large additions to such industries as steel tank fabrication, aviation, a distillery and meat packing.

The manufacture of houses and buildings is a major Calgary business. Widely-known is the firm of Atco Industries Ltd. whose products are distributed world-wide. It is especially known for industrial camp buildings, but also makes pre-crafted homes which are complete with all appliances. Now it is developing community structures, buildings for classrooms, hospitals and offices. It has plants in Montreal, the United States and Australia as well as two plants in the Calgary area. Atco ships buildings to over 30 countries, and has annual sales of $42.5 million.

In a similar business are newer plants of Instant Housing Industries and of Quality Construction Ltd. The latter is a major plant for the construction of prefabricated housing. Instant Housing has just opened a 62,000 square foot plant that is producing four mobile homes a day and expects to double that when in full production.

Southern Alberta was founded on farming and ranching, and Calgary still ranks as one of the continent's major centres for the handling of grain, livestock, poultry and dairy products.

It is in this climate, and in this thriving, active area that your company operates.



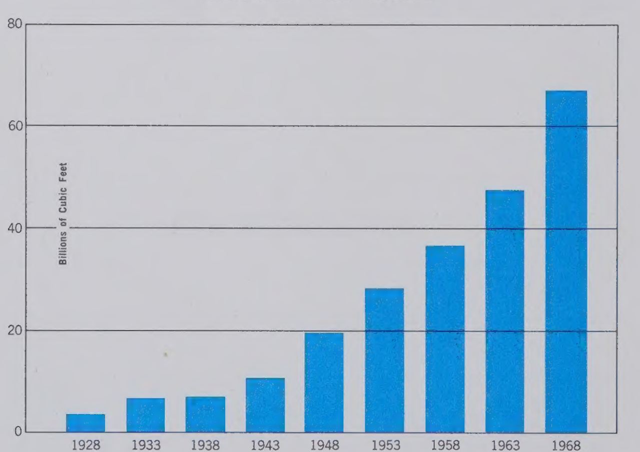
GAS SUPPLY

As of December 31, 1968, marketable gas reserves in fields connected to Canadian Western's system were estimated to be 1,604 billion cubic feet.

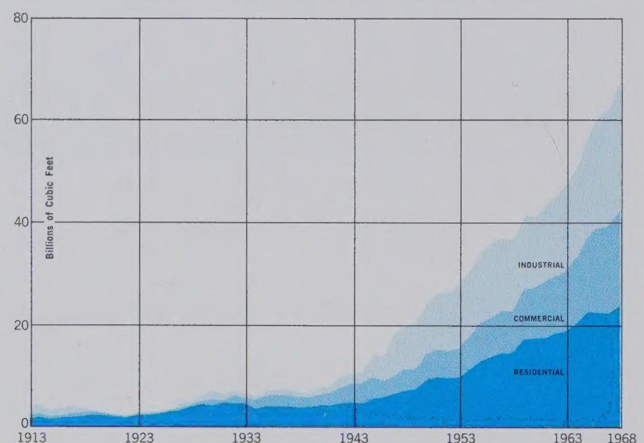
Canadian Western's main source of gas supply continued to be from the Jumping Pound – Jumping Pound West-Sarcee fields. Gas from these fields was processed in the Shell Canada Limited plant and supplied 55% of Canadian Western's requirements during the year. The remainder of our purchased gas was obtained from Redland-Strathmore, Turner Valley, Okotoks and a number of smaller sources.

The company's dry gas fields at Carbon, Bow Island and Foremost produced 8% of the annual market requirement. On our peak day, which occurred on Dec. 28, these fields were called upon to supply 43% of the total system demand.

ANNUAL GAS SALES



ANNUAL GAS SALES BY CUSTOMERS



Only 4% of the company's gas supply was obtained from the export companies, Trans-Canada Pipe Lines Limited and Westcoast Transmission Company Limited. This gas was used to supply isolated towns and communities, and to meet short term winter peaking requirements in various parts of the system.

The Petrogas-Carbon transportation and storage scheme with Trans-Canada Pipe Lines became fully operational during the year. Gas handlings under this arrangement in 1968 were 8.2 billion cubic feet. During the year 1.6 billion cubic feet of gas were stored in the Carbon reservoir for the account of Trans-Canada. This gas is being withdrawn and returned to Trans-Canada during the 1968-1969 winter season. The main benefits of this scheme to Canadian Western are the revenue earned for providing the service to Trans-Canada and the increase in the availability at Calgary of up to 40 million cubic feet per day of peaking gas.

NEW CONSTRUCTION

During the year approximately $4.4 million was spent on the construction of plant facilities and improvements, compared with $5.1 million in 1967.

Most of these expenditures were devoted to the extension of pipelines and the addition of facilities to serve new customers. Approximately $1.3 million was spent on the addition of urban customers. The company's program of serving rural customers was again a major item in the year's program. The connection of 775 rural customers cost approximately $1 million.

A major part of the production improvements was the installation of a 1,200 horsepower compressor and related facilities at the Carbon field, northeast of Calgary. This field is now capable of being used as a storage field. An integral part of this installation was the construction of a supervisory system which permits the field operations to be handled by remote control from Calgary control station, 70 miles away.

Capital expenditures for 1969 are estimated at $4 million. More than half of this amount, $2.2 million, will be spent on extensions to serve an estimated 4,650 new customers. Included are 700 new rural customers.

STAFF

Despite the fact that the number of customers served continues to rise substantially year by year, and consequently the work load required to serve them, the company's work force remains relatively stable. At Dec. 31, 1968, there were 593 full-time employees on the company's staff, up only slightly from a year ago.

Cranes swinging from these buildings under construction give vivid evidence of Calgary's building activity. The downtown area is proof, indeed, of the progress of the city.

The extent of new building construction is easily seen in this aerial view of one section of downtown Calgary.

Education facilities are rapidly rising to meet the challenge of today's society. Below is a view of the new Calgary school board offices. At right and below are views of the University of Calgary. The bottom picture shows the student centre, MacEwan Hall, part of an $18 million program completed in 1967-1968.

Contrasting buildings in Calgary are the new planetarium, above, and Alberta's newest hospital, below, the $26 million, 766-bed, Foothills Hospital.

More than 3,200 new single-family residences were built, or begun, in Calgary last year. Here are two views of housing construction in a new subdivision.

Causeways, overpasses, bridges and freeways are all part of Calgary's expanding system of roadways designed to handle the traffic of today and tomorrow.

From this 626-foot Husky Tower diners view the entire city of Calgary. The $3.5 million structure is the first to be completed in the $35 million Palliser Square project which will include apartments, offices, parking structures, a transportation centre and shops.

FINANCIAL STATEMENTS

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Canadian Western Natural Gas Company Limited as of December 31, 1968 and the statements of income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta
February 5, 1969

TRANSFER AGENTS

ORDINARY SHARES:
Montreal Trust Company
Calgary, Alberta — Edmonton, Alberta — Toronto 1, Ontario

PREFERENCE SHARES:
Canadian Western Natural Gas Company Limited
Calgary, Alberta
Crown Trust Company
Montreal 1, Quebec — Toronto 1, Ontario

REGISTRARS

ORDINARY SHARES:
Montreal Trust Company
Calgary, Alberta — Edmonton, Alberta — Toronto 1, Ontario

PREFERENCE SHARES:
Crown Trust Company
Calgary, Alberta — Montreal 1, Quebec — Toronto 1, Ontario

AUDITORS

Peat, Marwick, Mitchell & Co.
309 Eighth Avenue S.W., Calgary, Alberta

BALANCE SHEET

December 31, 1968

(with comparative figures for 1967)

ASSETS	1968	1967
Fixed assets:		
Property, plant, gas wells and equipment — at cost	$76,121,872	$72,432,036
Deduct amortization and depreciation	22,336,841	20,788,907
	53,785,031	51,643,129
Undertaking, franchises, gas rights, etc. in respect of which no provision for amortization is being made (including $2,000,000 par value ordinary shares in Calgary Gas Company, Limited) acquired through issue of ordinary shares	8,000,000	8,000,000
	61,785,031	59,643,129
Investments not having market quotations — at cost, less reserve	1,415	2,131
Current assets:		
Cash	227,240	194,787
Short term investment — at cost and market	–	1,000,000
Marketable securities — at cost (quoted market value $141,670; 1967 $356,875)	117,015	417,000
Accounts receivable	3,701,612	3,024,289
Due from affiliated companies	40,128	7,495
Government of Canada special refundable tax	95,358	77,400
Materials and supplies — at or below average cost	844,408	748,253
Prepaid expenses	5,717	9,528
Total current assets	5,031,478	5,478,752
Unamortized debt discount and expense	355,044	389,388
Other deferred charges	126,976	143,227
Government of Canada special refundable tax, less current portion	–	89,825
	$67,299,944	$65,746,452

Approved on behalf of the Board:

D. K. YORATH, Director

J. E. MAYBIN, Director

LIABILITIES

	1968	1967
Capital stock and surplus:		
Preference shares (note 1)	$ 9,508,200	$ 9,508,200
Ordinary shares:		
Authorized — 3,000,000 shares without nominal or par value.		
Issued — 1,780,000 shares	10,799,000	10,799,000
Earned surplus (Note 2)	14,847,867	14,191,872
General reserve	1,711,541	1,711,541
	27,358,408	26,702,413
Total capital stock and surplus	36,866,608	36,210,613
Long-term debt (Note 3)	21,926,000	22,855,000
Current liabilities:		
Bank loan	1,300,000	200,000
Accounts payable and accrued charges	1,484,672	1,440,451
Interest accrued on long-term debt	249,415	259,259
Interest accrued on consumers' deposits	380,350	343,466
Long-term debt — current maturities	323,000	240,000
Income taxes accrued (Note 4)	383,357	520,243
Other taxes accrued	349,296	325,241
Due to parent and affiliated companies	51,406	–
Total current liabilities	4,521,496	3,328,660
Consumers' deposits	1,260,714	1,197,134
Reserves:		
Contributions for extensions	1,952,413	1,336,391
Deferred income taxes (Note 5)	403,620	442,860
Miscellaneous	369,093	375,794
	2,725,126	2,155,045
	$67,299,944	$65,746,452

See accompanying notes.

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	1968	1967
Natural gas sales	$23,432,830	$22,001,346
Operating expenses and taxes:		
Natural gas purchased	8,313,748	7,633,191
Operating	4,994,475	4,601,220
Maintenance	920,393	826,428
Salaries of directors, officers and senior employees	211,839	202,449
Taxes — income (Notes 4 and 5)	1,940,000	2,010,000
Taxes — other than income	1,646,342	1,555,643
Depreciation — exclusive of $150,233 included in other expenses (1967 — $154,936)	1,660,887	1,633,490
	19,687,684	18,462,421
Net operating income	3,745,146	3,538,925
Other income:		
Interest and dividends	145,235	136,760
Rent	214,739	208,012
Miscellaneous	102,514	49,367
	462,488	394,139
	4,207,634	3,933,064
Income deductions:		
Interest on long-term debt	1,314,111	1,112,964
Debt discount and expense amortized	34,343	33,877
Other interest	71,857	118,792
	1,420,311	1,265,633
Net income	$ 2,787,323	$ 2,667,431

See accompanying notes.

STATEMENT OF EARNED SURPLUS

YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	1968	1967
Balance at beginning of year	**$14,191,872**	$13,566,769
Add net income	**2,787,323**	2,667,431
	16,979,195	16,234,200
Deduct dividends paid:		
4% cumulative preference shares	**220,328**	220,328
5½% cumulative preference shares	**220,000**	220,000
Ordinary shares	**1,691,000**	1,602,000
	2,131,328	2,042,328
Balance at end of year	**$14,847,867**	$14,191,872

See accompanying notes.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	1968	1967
Funds provided by:		
Operations:		
Net income for the year	**$ 2,787,323**	$ 2,667,431
Add depreciation and other charges, less credits, not involving cash outlay	**1,896,028**	1,819,127
	4,683,351	4,486,558
Proceeds of 7% first mortgage sinking fund bonds, series E, less expenses of issue	**—**	6,921,012
Proceeds from disposal of fixed assets	**37,635**	67,122
Increase in contributions for extensions	**616,022**	552,009
Increase in non-current consumers' deposits	**68,280**	58,600
Government of Canada special refundable tax	**89,825**	23,818
	5,495,113	12,109,119
Funds applied to:		
Payment of dividends	**2,131,328**	2,042,328
Additions to fixed assets	**3,990,657**	4,768,988
Reduction of long-term debt	**929,000**	736,000
Other	**84,238**	136,534
	7,135,223	7,683,850
Increase (decrease) in working capital	**$ (1,640,110)**	$ 4,425,269

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1968

1. Preference shares:

   Authorized:

   600,000 shares of the par value of $20 each, issuable in series, of which 325,000 shares have been designated as Cumulative Redeemable Preference shares 4% series and 200,000 shares have been designated as Cumulative Redeemable Preference shares 5½% series.

   Issued and redeemable at the option of the company on 30 days' notice at $20.60 per share:

275,410 shares 4% series	$5,508,200
200,000 shares 5½% series	4,000,000
	$9,508,200

2. The Trust Deed securing the First Mortgage Bonds imposes certain restrictions upon the payment of dividends and management fees and upon the redemption or repayment of the Company's preference and ordinary shares.

3. Long-term debt:

   The long-term debt consists of the following:

	Amount Outstanding December 31, 1968	Current Maturities
First mortgage sinking fund bonds:		
Series A — 3½%, due April 1, 1971	**$ 2,429,000**	$ 79,000
Series B — 5¾%, due February 1, 1982	**5,009,000**	4,000
Series C — 5⅜%, due April 1, 1983	**3,351,000**	—
Series D — 5⅝%, due May 1, 1989	**4,600,000**	100,000
Series E — 7%, due June 15, 1992	**6,860,000**	140,000
	22,249,000	$323,000
Deduct current maturities	**323,000**	
Long-term debt less current maturities	**$21,926,000**	

   The funded debt outstanding at December 31, 1968, is stated after deducting $321,000 Series A, $181,000 Series B and $124,000 Series C bonds which have been purchased by the company for future sinking fund payments.

4. When computing taxable income for the years 1954 to 1961 inclusive, depreciation was claimed at maximum rates permitted by the Income Tax Act (being a greater allowance than that provided for in the accounts of the company) which effected a postponement in income taxes to future years of a total amount of $1,804,000. From 1962 to 1967 inclusive the company claimed depreciation for tax purposes only to the extent that depreciation was provided for in its accounts. In 1968, the company, at the specific request of the City of Calgary, reverted to the procedures used in the years 1954 to 1961 inclusive and thereby effected a further postponement in income taxes to future years of $268,000.

   Except for the matter referred to in Note 5, in fixing rates the company is permitted by the Public Utilities Board of the Province of Alberta to recover taxes only payable currently. Accordingly the company has not recorded in its books the deferral of income taxes of $268,000 for the current year and the aggregate deferral, including the total amount in respect of the years 1954 to 1961 inclusive, amounting to $2,072,000 at December 31, 1968.

5. During 1962 and subsequent years the company acquired natural gas rights for its utility system which, under 1962 amendments to the Income Tax Act, must be claimed against income in the year in which payment therefor has been made. Consequently the company claims such items for tax purposes in the year of payment which effects a postponement in income taxes to future years. From 1962 to 1966 these amounts were used to reduce reported income tax expense as the amortization of the assets was charged against income.

   In 1967 the company, at the specific request of the City of Calgary, agreed to amortize the January 1, 1967 deferred income taxes of $479,800 over the next 10 years and to similarly amortize any deferrals created in the future over a 10 year period. If this change had not been implemented deferred income taxes as of December 31, 1968 would have been $444,297 instead of $403,620 reported on the balance sheet at that date and the reported income for the year ended December 31, 1968 would have been reduced by $22,924 and the aggregate accumulated reported income to December 31, 1968 would have been reduced by $40,677.

6. The company together with certain of its affiliated companies has in effect a pension plan covering substantially all of its employees. At December 31, 1968, the company's share of the aggregate unfunded liability for past service costs under the plan amounted to approximately $1,260,000. Such unfunded liability, generally, is being absorbed as a charge against income on a basis which will result in the amortization of the amount over a period of approximately ten years. During 1968, approximately $258,000 was charged against income in respect of current services and in respect of the amortization of the unfunded liability for past service costs.

ALBERTA
SYSTEM MAP
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED
NORTHWESTERN UTILITIES, LIMITED
December 31, 1968
Legend
Gas and/or Oil Fields
PIPELINES
Northwestern Utilities
Canadian Western
Alberta Gas Trunk for Trans-Canada
Alberta Gas Trunk for Alberta & Southern and Canadian Montana Pipeline Co.
Pipelines Owned by Others
SCALE IN MILES
0
50
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASK.
MANITOBA
ONTARIO
QUEBEC
NFLD.
P.E.I.
N.B.
N.S.
UNITED STATES
Swan Hills
Virginia Hills
Judy Creek
Carson Creek North
Carson Creek
Whitecourt
Clyde
Vimy
Fairydell-Bon Accord
Legal
Mayerthorpe
Rochford Bridge
Sangudo
Paddle River
Lisburn
Cherhill
Glenevis
Gunn
Bon Accord
Gibbons
Bruderheim
Lamont
Chipman
Fort Saskatchewan
Calahoo
Lamoureux
Villeneuve
St. Albert
Josephburg
Fort Saskatchewan
Hilliard
Mundare
Peers
West Edson
Edson
Niton Junction
Wildwood
Entwistle
Evansburg
Gainford
Darwell
Alberta Beach
Onoway
Wabamun
Seba Beach
Stony Plain
Winterburn
Spruce Grove
Clover Bar
Ardrossan
Beaverhill Lake
Vegreville
Hinton
Edmonton
Sherwood Park
Hercules
Ellerslie
Nisku
Cooking Lake
North Cooking Lake
Lindbrook
Tofield
Ryley
Lavoy
Ranfurly
Innisfree
Mannville
Vermilion
Islay
Minburn
Wildmere
Pembina
Drayton Valley
Thorsby
Glen Park
Leduc-Woodbend
Sunnybrook
Warburg
Wizard Lake
Breton
Buck Creek
Mulhurst
Silver Beach
Bonnie Glen
Millet
Round Hill
Poe
Holden
Bruce
Viking
Viking-Kinsella
Kinsella
Irma
Wainwright Army Camp
Hardisty
Gwynne
Bittern Lake
Camrose
Wetaskiwin
Hobbema
Samson
Jasper National Park
Bluffton
Rimbey
Ponoka
Morningside
College Heights
Bashaw
Bentley
Clive
Mirror
Blackfalds
Lacombe
Alix
Sylvan Lake
Eckville
Norglenwold
Benalto
Rocky Mountain House
Red Deer
Joffre
Stettler
Provost
Cadogan
Fenn-Big Valley
Big Valley
Penhold
Delburne
Caroline
Innisfail
Veteran
Consort
Monitor
Bowden
Elnora
Huxley
Wimborne
Trochu
Olds
Torrington
Didsbury
Linden
Swalwell
Carbon
Cremona
Carstairs
Acme
Carbon
Wayne-Rosedale
Oyen
Beiseker
Crossfield
Redland
Irricana
Rosebud
Banff National Park
Jumping Pound West
Airdrie
Kathyrn
Rockyford
Banff
Harvie Heights
Cochrane
Seebe
Morley
Standard
Strathmore
Hussar
Canmore
Exshaw
Jumping Pound
Conrich
Gem
Calgary
Sarcee
DeWinton
Okotoks
Rosemary
Bassano
Duchess
Black Diamond
Turner Valley
High River
Brooks
Cayley
Vulcan
Nanton
Kirkcaldy
Parkland
Champion
Stavely
Carmangay
Enchant
Vauxhall
Claresholm
Barons
Turin
Iron Springs
Picture Butte
Shaughnessy
Diamond City
Taber
Bow Island
Granum
Nobleford
Purple Springs
Grassy Lake
Burdett
Fort Macleod
Monarch
Coalhurst
Cranford
Barnwell
Coaldale
Lethbridge
Blairmore
Frank
Bellevue
Hillcrest
Stirling
Welling
Raymond
Magrath
Foremost
Spring Coulee
Cardston
Waterton National Park
Mountain View